Governor Phil Scott's Education Savings Proposal

Frequently Asked Questions

Why are school employees' healthcare plans being changed?

The federal Affordable Care Act, passed in 2010, put high-valued health plans at risk of a "Cadillac" tax. The Vermont Education Health Initiative (VEHI), an independent non-profit organization that offers school employees their health benefits, is transitioning to new plans in January 2018, which are projected to cost substantially less than existing plans and will not be subjected to the federal penalty. This change to new plans is, in part, to avoid the "Cadillac" tax, and to offer plans that are more competitive with the ACA-compliant exchange plans. Premium savings are estimated to be up to $75 million a year.

In 2016, representatives from VEHI, including its Vermont NEA representative, presented the reasons for the transition in legislative committees, including Senate Finance, highlighting the potential taxpayer savings if the State moved to these new plans.

What does the Governor's proposal do?

In April, after weeks of stakeholder discussions, Governor Phil Scott presented a proposal to maximize the benefit of this unique savings opportunity. **His proposal**:

- Achieves savings by transitioning to a statewide health plan where school employee unions would collectively bargain with the State for the health benefit only;
- Reinvests nearly $50 million back into school employees to keep average annual out-of-pocket costs the same;
- Uses the remaining savings to benefit taxpayers – up to $13 million in Fiscal Year (FY) 2018 (because the plan year begins January 1 and the state fiscal year ends June 30), and up to $26 million a year moving forward.
- Simplifies the bargaining process for school boards, providing much-needed relief from complex healthcare negotiations so these volunteer boards can focus on education priorities for students; and
- Introduces equity in the system so all school employees enjoy the same benefits and there is parity across districts.

How does Governor Scott's proposal ensure the savings?

Currently, more than 60 school boards each negotiate with school employee unions for benefits, salaries, paid time off, etc., resulting in wide-ranging benefits that vary from district to district. With a statewide health plan, the State would negotiate one contract for healthcare for all school employees. This change would maximize the potential savings of up to $26 million a year, while maintaining bargaining rights.

Assuming the State negotiates an 80/20 premium cost sharing ratio between employer/employee for the best value VEHI plan, estimated premium savings are $75 million a year. Governor Scott's proposal reinvests nearly $50 million to keep school employees' average exposure to out-of-pocket costs the same. The remaining $26 million ($13 million in FY 18) in savings would be held in the Education Fund, allowing for property tax rate reductions, or investments in other education-related priorities like reducing the underfunding of the teachers' retirement fund.

Does the Governor's proposal impact school employees' healthcare benefits?

No – it is important to note the change in health plans has been underway for years, and the new plans go into effect in January 2018. The Governor's proposal aims to maximize the benefit of the savings resulting from this change for all Vermonters. It is designed to keep school employees whole by limiting any change in exposure to costs. The Governor's proposal reinvests nearly $50 million directly back into benefits for school employees, funding Health Savings Accounts or Health Reimbursement Accounts to offset any potential increase in out-of-pocket costs for VEHI members as they transition to the new plans.

Further, analyses have found that by investing this $50 million to cover out-of-pocket costs, the actuarial value of new plans is estimated to be about 95-97%, which is equal to, or greater than, the actuarial value of current school employee health plans (estimated at 95%). This means the modeled health care plans in the Governor's proposal have more value and cost less than current plans – so the Governor's proposal is a better deal for school employees than the status quo!

Will this result in cuts to school programming?
No. By linking the savings directly to the lower healthcare costs, Governor Scott's proposal ensures savings result from those lower-cost plans – not by cutting school programming.

In contrast, alternate proposals from the Legislature have suggested reducing the State expenditure to school districts by $13 million in FY 2018 to account for the savings, but provide no policy mechanism to ensure the savings are earned through the change in health plans. This proposal puts programs at risk. Vermont NEA president Jeff Fannon acknowledged this possibility, telling Vermont Public Radio, "it's possible that if districts can't extract those savings through health benefit negotiations, then they could have to reduce expenditures that directly impact educational programs," Fannon said in reference to a proposal from the Legislature, known as the "Ashe amendment."

Does the Governor's proposal alter collective bargaining?
The Governor's proposal keeps all benefit and salary negotiations other than healthcare at the local level – those negotiations remain unchanged. For the health benefit only, school employee unions would negotiate with the State for a statewide health benefit, rather than the local school board. Similarly, retired teachers currently receive health insurance with cost-sharing set by the State.

It is important to note that Governor Scott has also been open to alternatives that further mirror the current negotiation process, including a panel of school board officials that could negotiate the statewide contract (rather than having the State as the bargainer), and setting a plan in statute for a limited period to secure the maximum savings and then return to local district-by-district negotiations.

Why is this a "once-in-a-lifetime" opportunity?
Health plans are typically negotiated on a rolling basis, but because the planned change is occurring statewide, each district is currently negotiating on the same schedule and most contracts are open. However, a policy mechanism – such as the plan proposed by Governor Scott – is necessary to ensure the savings are realized for taxpayers.

If the plans cost less, won't taxpayers see the savings without any policy changes?
Thirteen school districts have already settled their healthcare contracts and are not achieving the available savings.

These early settlements demonstrate why the Vermont School Boards Association – along with the Vermont Superintendents Association – approached the Governor, as well as House and Senate leadership in February (Source: Burlington Free Press) with the opportunity to work together to realize these savings for taxpayers. They asked for assistance from the State because, in their experience, volunteer school boards are often at a disadvantage when negotiating with the professional unions and their statewide network (Source: VT Digger).

Why veto the budget and the property tax yield bill over this?
Instead of taking advantage of this savings opportunity, the Legislature uses rainy day funds from the Education Fund and applies one time money to temporarily buy down residential property tax rates, while raising non-residential property taxes (which includes small businesses, camp owners and renters).

In combination, these bills all but guarantee a property tax increase in FY 2019. By vetoing both bills, Governor Scott provided an opportunity for legislators to work with him to put a mechanism in place that will make Vermont more affordable with up to $26 million in annual savings.

For more information visit www.governor.vermont.gov.

###